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Hungary shared the lot of other countries in South-eastern Europe in that surplus agrarian population was a fundamental feature of her economic and social life. The density of agricultural population, as measured by the number of people dependent on agriculture per square kilometre of arable land equivalent, was 63·1 in Hungary against 28·18 in France and 33·9 in Great Britain.[1] As the countries with low areas per cultivator generally also have low yields per acre, agriculture was unable to provide economic employment for a population of that density. The situation was greatly aggravated by the uneven distribution of land. Large units of over 700 acres comprised almost one-third of the whole agricultural area. The big and very big estates—quite a number of them extending to 7,000 acres and more—were the main suppliers of the grain surplus of the country. The preponderance of grain growing implied, however, a relatively low demand for hands per acre cultivated. According to expert opinion the under-employment of the population engaged in agriculture amounted to about 25 per cent.

During the inter-war period industry was able to absorb but a fraction of the excess man-power at the then rate of progress of industrialization. There resulted a constant pressure of supply on the labour market, and an income distribution correspondingly unfavourable to the wage-earners.

Employers in industry took advantage of the low wage-level and of the fact that Hungarian workers readily adapt themselves to industrial work and acquire the technical skill needed in different branches of manufacture. The old-established Hungarian industries, like engineering and food processing, laboured under the disadvantage of having been established to meet the needs of the larger national market which had been secured to them until the disruption of the Habsburg Monarchy. Different branches of engineering had supplied Greater Hungary with railway material, agricultural machinery, and certain kinds of industrial equipment, while food processing industries, in particular, flour mills, had been suppliers of the whole Monarchy. These industries, reluctant to face realities, had to suffer a protracted process of adaptation.

On the other hand new industries, favoured by the change of circumstances, developed. The expansion in the textile, electrical, and chemical industries was the most remarkable. On the whole, the new enterprises recorded good results both in

[1] Wilbert E. Moore, *Economic Demography of Eastern and Southern Europe* (Geneva, League of Nations, 1945), pp. 197–201; the arable land equivalent is calculated according to the following proportions: arable land, 100; orchard and garden lands, 300; meadows, 40; and pastures, 20.

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technical quality and in commercial organization. But they were growing in an atmosphere of protectionism, intensified in the thirties by a system of exchange regulations and import quotas, and they became dependent, with few exceptions, on a narrow national market. Consequently the competitive spirit was alien to the Hungarian entrepreneur. He did not naturally think of extending markets by reducing costs and prices, and was rather monopolistically minded, bent on securing profits by charging high prices. Thus the tendency, then prevailing internationally, of industrial and agricultural prices to diverge to the disadvantage of the latter, had been accentuated. These developments furthered industrial expansion, enabling industrialists to extend their capital by ploughing back considerable profits. In the absence of a capital market this was virtually the only way of financing. High industrial profits, however, caused discord, sharpened antagonism between the different classes of society, and made industry and industrial capitalism unpopular.

Industrial development implied decreasing imports of finished products. But Hungarian industry was, as it still is, largely dependent on imported raw materials, particularly on imports of timber, metals, and cotton. Industrial production cannot be carried on unless the necessary materials can be paid for by exports. The exports had, moreover, to cover the deficit in the invisible items of the balance of payments. On the average of the period 1933–7, 44 per cent of the total imports consisted of raw materials, 29 per cent of semi-finished products, and 27 per cent of wholly manufactured goods. Of exports, roughly 60 per cent were unprocessed food—wheat, cattle, pigs, poultry—and raw materials, 10 per cent semi-finished products, and 30 per cent manufactured articles. During the period in question exports amounted to about 12 to 13 per cent of total national production.

The productive capacity of Hungarian industry was enlarged between 1938 and 1943 by the launching of a public investment programme. Yet the consumptive power of the country was not extended: it was, in fact, contracted by the steadily increasing inflation. The expansion of industry during these years was, of course, part of the effort of rearmament, and was also intended to feed the insatiable appetite of the Third Reich.

The war made inroads on the country's enlarged industrial capacity through bombing, through damage inflicted during the campaign of 1944–5, and through Russian dismantling in the first phase of the occupation. It was not capacity, however, which set limits to production after the end of the war. The decisive limitation was the lack of coal and raw materials along